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SUBJECT: BRAZIL ESTH UPDATE, JUNE/JULY 2006

NEW STATE PARK

1. The Government of the Brazilian state of Para has approved the creation of the second the biggest protected area in the country. The state forest (Flota) of Paru will be 36,000 square kilometers (3.6 million hectares), an area larger than France, and it will be used for both preservation and sustainable exploitation of natural resources. All timber production will have to be certified and there are also plans to develop activities such as research, mining and tourism in the forest.

The Brazilian Government also has plans to approve another 13 state-forests, all of which will allow both conservation and sustainable economic development of the areas. Paru state-forest will be the model for the other 13 Flotas that the Brazilian Government intends to establish.

PRESERVATION LAW HURDLES

2. Farmers and rural producers from the state of Sao Paulo do not agree with new a preservation decree implemented in June, 2006. The decree, part of a Brazilian Forest Code, requires that 20% of rural properties be covered by native vegetation. The problem is that most of the land in the state is already being used for agricultural purposes. According to analysts from the Agriculture Economics Institute (IEA), an estimated 3.7 million hectares of productive land would have to be turned into native vegetation, resulting in the loss of US\$ 2.6 billion in agriculture revenues and 136 thousand jobs.

BRAZILIAN NATIONAL FRESHWATER MANAGEMENT PLAN

3. The Government of Brazil recently approved the country's first National Freshwater Management Plan. The plan includes more than 25 national and regional programs that encompass objectives, goals and guidelines for the sustainable use of Brazil's freshwater resources until 2020. The plan's main components are the adoption of scientifically defined freshwater ecoregions and analyses of hydroelectric potentials, navigation and water utilization regimes for drinking water, other household uses, industrial uses and irrigation. Brazil possesses 12% of the world's freshwater reserves and is the first country in Latin America to have a National Water Management Plan.

CRITICAL DROUGHT SITUATION

4. Due to the second worst drought in the state's history, 45 cities in Parana were put under a state of emergency, bringing the total number to over 250 cities in Brazil's Southern region. Approximately 1.8 million people in Parana will experience water rationing over the next couple of weeks. River volumes are falling daily and the financial loss in Parana's agricultural sector is estimated to be US\$ 845 million due to the lack of water. The rainy season is expected to start in September.

15. A Brazilian consortium of GoB and private entities just unveiled a US\$ 3 billion strategy aimed at making Brazil a world leader in biotechnology. The plan was announced during The Brazilian Forum of Biotechnology Competitiveness and it will identify areas with the potential to boost the competitiveness of Brazilian industry, increase Brazil's participation in global trade, speed up the industry's economic growth and create jobs. Out of the total amount, US\$ 530 million is earmarked for health-related biotechnology, including the production of drugs and vaccines for neglected diseases and research in the fields of genomics, proteomics, nano-biotechnology and stem cell science. The plan, which will be presented to President Lula da Silva for approval later this year, also provides for new funding mechanisms, training and improving infrastructure of research institutions.

CHICOLA